



STRATEGIC PLAN

FISCAL YEARS 2011-2014

Submitted this 1st day of July 2010

A handwritten signature in black ink, appearing to read "JRA", followed by a long horizontal line extending to the right.

Jeffrey R. Anderson, Director

I. Mission, Vision, Values

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho Public Schools and the Permanent Building Fund.

The vision for the Idaho Lottery is to become the highest performing jurisdiction in North America.

Values - Our Fundamental Operating Principles:

- We operate the Idaho Lottery in accordance with the spirit and letter of the law that established its purpose.
- We conduct business in an ethical and honest manner at all times.
- We continuously strive to exceed the expectations of our customers, each other, and our community.
- We are personally responsible for our individual performance.
- We work diligently toward continuous process improvement.
- We pursue clear, concise, and consistent communication with each other, our vendors, our retail customers, and the stakeholders in state government.
- We commit to operational excellence in all disciplines.
- We deliver performance results that exceed our business plan and industry benchmarks.
- We cooperate with each other to create an environment that is conducive to great work.
- We treat each other with mutual respect and cooperation.
- We have fun.

II. Goals

1. Protect the security and integrity of our games
2. Responsibly increase net revenues
3. Rigorously manage costs
4. Guard the honesty of charitable gaming

III. Objectives

1 – Protect the security and integrity of Idaho Lottery games by continuing to meet or exceed Multi-State Lottery Association (MUSL), National Association for State and Provincial Lotteries (NASPL), and internal Idaho Lottery security standards.

We conduct thorough background checks of prospective Lottery and vendor employees (as well as having the option for similar retailer background checks) for criminal, financial, and conflict of interest issues that could affect the integrity of our games.

The Idaho Lottery Security Division will continue to investigate and prosecute theft and fraud relating to Lottery games as well as assist retailers with loss prevention.

2 – Responsibly increase net revenues by (1) diligently working to improve the net game revenue from our portfolio of products, (2) enriching retailer relations, (3) extending distribution channels, (4) improving the customer experience, (5) gaining a better understanding of the marketplace through research, and (6) continuing the distribution of next generation of Player Activated Terminals (PAT).

2.1 – Lottery game revenue currently comes from three authorized play styles:

- Draw-style games – *Powerball PowerPlay, Mega Millions with Megaplier, Wild Card, Idaho Pick 3, Hot Lotto Sizzler, Double Play Daily, Idaho \$1,000,000 Raffle, and Idaho \$500,000 Raffle*
- Instant ticket games – *Scratch™ Games*
- Break-open instant ticket games – *PullTabs*

Net game revenue varies by game, subject to player prize expense and the cost of goods sold. *Scratch™* games and *PullTabs* have higher prize payouts and overall costs than draw-style games. In order to increase net game revenues, we will increase total sales, work to increase the ratio of draw-style games to *Scratch™* games and *PullTabs*, actively manage gross margins on all games, and implement comprehensive branding initiatives.

Draw-style games – increase overall game sales and as a percentage of total sales by leveraging the strength of the *Powerball* brand in responsibly promoting the portfolio of draw-style games, including the new big jackpot game *Mega Millions*; recruiting additional retail outlets, promoting sales of the *Powerball PowerPlay, Mega Millions with Megaplier, and Hot Lotto Sizzler* options, and offering the fourth annual *Idaho \$1,000,000 Raffle*. We do not plan to bring back the *Idaho \$500,000 Raffle*.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Powerball PowerPlay	\$36,434,729	\$36,787,378	\$39,471,389	\$38,292,403	\$44,709,233
Wild Card	\$3,128,444	\$3,152,691	\$4,191,160	\$6,371,182	\$3,255,698
Idaho Pick 3	\$1,637,500	\$1,883,839	\$1,840,395	\$1,421,235	\$1,212,833
Hot Lotto Sizzler	\$3,765,473	\$4,132,812	\$2,760,090	\$0	\$0
Double Play Daily	\$1,567,519	\$360,806	\$0	\$0	\$0
Mega Millions Megaplier	\$2,689,228				
Raffle	\$3,968,525	\$2,500,000	\$2,500,000	\$0	\$0
Total Sales	\$53,191,418	\$48,817,526	\$50,763,034	\$46,084,820	\$49,177,764
Change from prior year	\$4,373,892	(\$1,945,508)	\$4,678,214	(\$3,092,944)	\$14,752,289
Percentage of Product Sales	36.2%	35.0%	37.1%	35.3%	37.5%
Percentage Sales Change	9.0%	-3.8%	10.2%	-6.3%	42.9%

Scratch™ games – increase sales by responsibly promoting the “*Just a Buck or Two*” branding campaign, recruiting additional retail outlets, continuing to introduce unique and entertaining play formats and styles, continuing to arrest the downward trend in \$2 and \$3 games, continue implementing our core-game strategy by price-point, managing the gross margin on the product portfolio, continuing to improve in-store product presentation through our Retailer Standards of Excellence Program, and increasing product turnover.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
One-dollar games	\$9,703,139	\$8,960,548	\$10,695,179	\$11,488,607	\$13,376,481
Two-dollar games	\$7,809,370	\$8,636,566	\$8,145,796	\$8,825,982	\$9,730,284
Three-dollar games	\$21,796,831	\$23,301,684	\$28,438,768	\$29,893,590	\$31,190,340
Four-dollar games	\$0	\$0	\$0	\$0	\$0
Five-dollar games	\$26,836,040	\$23,739,595	\$14,601,734	\$14,239,072	\$10,777,774
Seven-dollar games	\$0	\$578,851	\$6,182,442	\$7,508,788	\$6,281,898
Ten-dollar games	\$11,938,560	\$12,770,140	\$9,946,570	\$5,232,300	\$3,993,800
Fifteen-dollar games	\$525,450	\$6,842,625	\$6,376,095	\$6,014,520	\$5,636,340
Twenty-dollar games	<u>\$11,896,720</u>	<u>\$3,595,040</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Sales	<u>\$90,506,110</u>	<u>\$88,425,049</u>	<u>\$84,386,584</u>	<u>\$83,202,859</u>	<u>\$80,986,917</u>
Change from prior year	\$2,081,061	\$4,038,465	\$1,183,725	\$2,215,942	\$3,240,263
Percentage of Product Sales	61.6%	63.3%	61.7%	63.7%	61.8%
Percentage Sales Change	2.4%	4.8%	1.4%	2.7%	4.2%

PullTab games – increase sales by recruiting additional commercial and charitable retailers through responsibly managing our full service contract with ticket printer International Gamco, Inc.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
PullTabs	<u>\$3,153,827</u>	<u>\$2,406,606</u>	<u>\$1,695,570</u>	<u>\$1,243,740</u>	<u>\$966,360</u>
Total Sales	<u>\$3,153,827</u>	<u>\$2,406,606</u>	<u>\$1,695,570</u>	<u>\$1,243,740</u>	<u>\$966,360</u>
Change from prior year	\$747,221	\$711,036	\$451,830	\$277,380	(\$358,890)
Percentage of Product Sales	2.1%	1.7%	1.2%	1.0%	0.7%
Percentage Sales Change	31.0%	41.9%	36.3%	28.7%	-27.1%

TOTAL PRODUCT SALES SUMMARY

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Draw Games	\$53,191,418	\$48,817,526	\$50,763,034	\$46,084,820	\$49,177,764
Scratch™ Games	\$90,506,110	\$88,425,049	\$84,386,584	\$83,202,859	\$80,986,917
PullTab Games	<u>\$3,153,827</u>	<u>\$2,406,606</u>	<u>\$1,695,570</u>	<u>\$1,243,740</u>	<u>\$966,360</u>
Total Sales	<u>\$146,851,355</u>	<u>\$139,649,181</u>	<u>\$136,845,188</u>	<u>\$130,531,419</u>	<u>\$131,131,041</u>
Change from prior year	\$7,202,174	\$2,803,993	\$6,313,769	(\$599,622)	\$17,633,662
Percentage Sales Change	5.2%	2.0%	4.8%	-0.5%	15.5%

2.2 – Enrich retailer relations by continuing our Retailer Advisory Board meetings throughout the state to gain customer feedback on our performance, responsibly managing the retailer incentive program, and developing a more effective training program for retail managers and clerks to ensure they are always fully trained in selling Lottery products.

2.3 – Extend distribution channels by adding 100 new retail outlets, including but not limited to, age-controlled trade styles with *PullTab* vending machines, traditional retail locations, and non-traditional locations such as big box stores.

2.4 – Improve the customer experience through the on-going implementation of the Idaho Lottery Standards of Excellence Program and improvements to our website and VIP Club Program.

The Standards of Excellence Program is the Lottery's retail improvement program designed to bring consistency of brand presentation at the transaction point and consists of Six Points of Reference for retail locations: (1) outside signage; (2) building signage; (3) inside signage; (4) point of purchase; (5) game display; and (6) customer service and retailer training.

The Idaho Lottery website has been completely redesigned. For the public, it is easier to navigate and includes an evolution of the Idaho Lottery's VIP Club that offers new and innovative ways to engage with us while reducing overall VIP Club costs. For our retailers, there is a secure, retailer-only website that makes doing business with us easier, faster, and cheaper for both the Lottery and our retail partners.

2.5 – Continue to utilize responsible market research for insight into Lottery players' interest in our brand/product offerings and implement actionable plans for creating and responsibly promoting entertaining games.

2.6 – Continue to deploy Player Activated Terminals (PAT) that offer both Scratch™ games and draw games with a goal of 270 machines in the field by July 1, 2011.

3 – Rigorously manage costs by controlling and lowering the expense of operating the Lottery through negotiating favorable vendor contracts for services, creating operational efficiencies, and exercising continuous process improvement.

Idaho Lottery Performance Trend:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>FY-2008</u>	<u>FY-2007</u>	<u>FY-2006</u>
Revenue	\$146,851,355	\$139,649,181	\$136,845,188	\$130,531,419	\$131,131,041
Other Revenue	<u>760,160</u>	<u>666,963</u>	<u>820,169</u>	<u>786,590</u>	<u>653,134</u>
Total Revenue	<u>147,611,515</u>	<u>140,316,144</u>	<u>137,665,357</u>	<u>131,318,009</u>	<u>131,784,175</u>
Prize Expense	88,375,547	84,997,107	81,463,579	78,875,202	76,679,037
Other Expenditures	<u>22,520,203</u>	<u>20,782,610</u>	<u>20,603,104</u>	<u>20,938,281</u>	<u>21,405,295</u>
Total Expenditures	<u>110,895,750</u>	<u>105,779,717</u>	<u>102,066,683</u>	<u>99,813,483</u>	<u>98,084,332</u>
Income Before Transfers	\$36,715,765	\$34,536,427	\$35,598,674	\$31,504,526	\$33,699,843
Dividends	\$36,500,000	\$35,000,000	\$34,750,000	\$34,000,000	\$33,000,000
Total Net Assets, Beginning	<u>11,439</u>	<u>475,012</u>	<u>(373,662)</u>	<u>2,121,812</u>	<u>1,421,969</u>
Total Net Assets, Ending	\$227,204	\$11,439	\$475,012	(\$373,662)	\$2,121,812

4 – Guard the honesty of charitable gaming by enforcing licensing and oversight of charitable bingo and raffle operators.

IV. Performance Measures

The most effective measures of an enterprise operation such as the Idaho Lottery are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal yardstick criteria.

Internal yardsticks include comparing our performance to the industry as a whole and to a peer group of like jurisdictions. The criteria includes, but may not be limited to, our performance compared to the mean and median percentage change in: retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, draw-style game sales, *Scratch™ Games* sales, prize expense to sales, and product mix. The peer group is comprised of Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, South Dakota, Tennessee, and Vermont.

V. Bench Marks

Idaho Lottery Operational Benchmark Measures:

	<u>FY-2011</u>	<u>FY-2012</u>	<u>FY-2013</u>	<u>FY-2014</u>
Draw Game Sales				
Powerball PowerPlay	\$36,200,000	\$36,500,000	\$37,000,000	\$37,500,000
Mega Millions Megaplier	6,700,000	6,900,000	7,400,000	7,900,000
Wild Card	2,600,000	2,800,000	3,000,000	3,200,000
Idaho Pick 3	1,620,000	1,800,000	2,000,000	2,200,000
Hot Lotto Sizzler	3,640,000	3,800,000	4,000,000	4,200,000
Raffle	2,500,000	2,500,000	2,500,000	2,500,000
Double Play Daily	1,500,000	1,700,000	1,900,000	2,100,000
New Draw Game	<u>490,000</u>	<u>1,000,000</u>	<u>1,200,000</u>	<u>1,400,000</u>
Total Draw Sales	55,250,000	57,000,000	59,000,000	61,000,000
Scratch™ Ticket Sales	91,250,000	93,000,000	94,500,000	96,000,000
PullTab Ticket Sales	<u>3,500,000</u>	<u>4,000,000</u>	<u>4,500,000</u>	<u>5,000,000</u>
Total Sales	150,000,000	154,000,000	158,000,000	162,000,000
Other Revenue	750,000	800,000	850,000	900,000
Total Expenditures	113,750,000	117,300,000	120,850,000	124,400,000
Net Income	<u>\$37,000,000</u>	<u>\$37,500,000</u>	<u>\$38,000,000</u>	<u>\$38,500,000</u>
DIVIDEND ESTIMATE	\$37,000,000	\$37,500,000	\$38,000,000	\$38,500,000

Peer Benchmark Measures:

	FY10		FY09		FY08		FY07		FY06	
	PEER GROUP**	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO
SALES PER CAPITA	-	\$95.00	\$100.29	\$90.34	\$101.43	\$89.80	\$100.05	\$88.92	\$99.31	\$89.33
ADMINISTRATION COSTS AS A PERCENTAGE OF SALES	-	6.8%	8.0%	6.7%	8.4%	6.8%	8.1%	7.6%	8.4%	8.0%
DIVIDEND AS A PERCENTAGE OF SALES	-	24.9%	24.0%	25.1%	24.6%	25.4%	24.6%	26.0%	24.0%	25.1%
DIVIDEND INCREASE PERCENTAGE	-	4.3%	-3.7%	0.7%	2.0%	2.2%	0.4%	0.4%	7.7%	26.9%

* PEER GROUP INCLUDES - KANSAS, MAINE, MINNESOTA, MONTANA, NEBRASKA, NEW MEXICO, SOUTH DAKOTA, TENNESSEE AND VERMONT

**PEER GROUP FIGURES UNAVAILABLE – 7/1/10

National Benchmark Measures:

	SCRATCH	DRAW	TOTAL	DIVIDEND
Idaho (FY10)	2.2%	9.2%	5.2%	4.3%
USA Average (CY09)	-0.4%	4.1%	-1.4%	-1.6%

Source: Idaho Lottery; National Association of State and Provincial Lotteries (NASPL)

VI. External Factors

Health of the Overall Economy

As the economy struggles to recover, it's unclear if consumers will return to pre-recession spending patterns. On May 19, 2010, Gallup, Inc. reported results from a survey of consumer spending:

“The Gallup analysis suggests that there's a “new normal” for consumer spending -- a fundamental shift in the way people spend and save. Even in an improving economy, we may discover that many consumers have permanently altered their shopping habits....after two years of recession, nearly half of all Americans across most demographic groups continue to say they are cutting back on their spending...30% of all American consumers continue to say cutting back on their spending will become their new, normal pattern for years ahead -- not much different from the percentage during most of 2009 - and a marked change in consumer psychology from the past.”

While the Idaho Lottery posted a 5% increase in top-line revenue in Fiscal Year 2010, we will not ignore the potential consequence of this marked change in consumer behavior and its effect on our ability to deliver sales forecasts. As general economic conditions improve, we will

continue to face significant challenges going forward in responsibly growing the dividend for our beneficiaries.

Jackpot Dependency

One significant external factor that is out of our control and may affect performance to plan is jackpot dependency. Sales of big-bloc, jackpot draw-style games such as *Powerball* are directly related to the size of the jackpots. Higher draw-style game sales as a percentage of total sales have an inordinately positive impact on the dividend because they deliver significantly higher gross margins. As noted below, past performance indicates jackpot size determines the volume of purchases from infrequent and group-play players.

POWERBALL JACKPOTS

YEAR	AVERAGE ESTIMATED JACKPOT PER DRAW	AVERAGE SALES PER DRAW	ANNUAL SALES
2010	\$83,380,952	\$346,698	\$36,403,254
2009	\$68,605,769	\$353,725	\$36,787,378
2008	\$71,146,154	\$381,380	\$39,663,541
2007	\$69,694,286	\$364,690	\$38,292,403
2006	\$82,342,192	\$429,896	\$44,709,233
2005	\$49,202,885	\$288,849	\$30,040,342
2004	\$62,099,048	\$342,257	\$35,594,769

We addressed jackpot dependency and its impact on predicting draw-style game revenue by augmenting our portfolio of games with *Mega Millions*, a jackpot game similar to *Powerball*. With only five months of sales to report, *Mega Millions* appears to have altered consumer behavior relative to buy-in at higher jackpot levels. While *Mega Millions* has had a positive impact on overall big-bloc, jackpot draw-style game sales, average sales per draw have decreased due to the added game option in the category. However, this new game should, over time, flatten out the peaks and valleys of draw-style game revenues.

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to, unpredictable increases in fuel and energy prices and their impact on player disposable income, our ability to be nimble in responding to rapidly changing retail market conditions, unintended adverse changes to our business model as a result of legislative action, terrorism, war, and Acts of God.